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24 October 1978

MEMORANDUM FOR THE RECORD

SUBJECT: USSR: Outlook for the Steel Industry
Through 1980

This brief report was prepared in response to a
request submitted to [REDACTED] SA/D/OER, by Mr.

[REDACTED]
indicated that [REDACTED] had asked for information on the
outlook for the Soviet steel industry through 1980
for use in preparation of a "national paper" [REDACTED]

[REDACTED]

[REDACTED]

Office of Economic Research

Attachment

[REDACTED]

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USSR: Steel Industry Outlook Through 1980

The Soviet steel industry, although securely established as the world's largest, has experienced difficulties in recent years. Increases in production of crude steel in 1976 and 1977 were less than the annual increases maintained during the previous quarter of a century as well as short of targets for the current plan period, 1976-80. Even the increases in output earlier in the 1970s were not adequate to keep pace with domestic needs for steel. Imports of steel in the past three years have reached 7-8 million tons compared with 3 million tons in 1970, although exports have remained steady at about 6-7 million tons during the 1970s. The major share of imports in recent years has been from the industrialized West. Annual outlays of hard currency for steel imports have averaged more than \$2 billion during 1974-77.

Steel industry difficulties can be traced mainly to inadequate investment. Annual allocations to the steel industry have been increased gradually, but have been less than planned and needed. Construction of basic iron-making and steelmaking capacity has lagged as well as construction of rolling and finishing capacity needed to

broaden the assortment and to improve the quality of steel products. In the iron ore sector, the growth in output has slowed as a continuing decline in the quality of the ore has necessitated heavy expenditures for raw ore mining capacity as well as for facilities to upgrade the ore. Some domestic operations have been hampered by shortages of ore, and exports have dropped off somewhat in the past two years from their peak level of 43.6 million tons in 1975.

Prospects are not favorable for an early turnaround or early solution to Soviet steel industry problems. Production is rebounding this year from the poor performance of the two previous years, but it is not certain yet that the target of 152.6 million tons can be attained. The target of 168.5 million tons for crude steel in 1980 is clearly beyond reach. The USSR will even be hard-pressed to attain the lower end of the range of 160 to 170 million tons -- the more informal goal for crude steel in 1980.

To compensate for inadequacies in domestic capabilities to manufacture metallurgical equipment, the USSR is relying more heavily on imports of equipment. Most notable is the major contract with West German firms and possibly other Western suppliers for construction near Kursk of a large integrated steel plant based on a direct reduction

process rather than the conventional blast furnace process. Various other types of equipment are being imported for expanding and improving operations at a number of existing steel plants. However, it will be several years before full benefits will be realized from these acquisitions.

Moreover, as helpful as these imports will be, they represent only a small share of Soviet needs in the next 5-10 years. There is no evidence, as yet, of Soviet intentions to import massive amounts of equipment. Nor is there any indication of a major program to expand and improve domestic capabilities to manufacture metallurgical equipment.

In short, the outlook is for a policy of gradual amelioration rather than a dramatic and urgent campaign to deal with problems and needs of the steel industry. Given the constraints on investment resources and the magnitude of the task, the Soviets probably have little choice in the matter. With about 60% of Soviet steelmaking capacity still accounted for by the traditional open hearth furnace, for example, the USSR will be occupied for many years in gradual steps to modernize and update basic steelmaking capacity. The dominant concern, however, is to concentrate investment as much as possible

on 10-12 major plants where large-scale blast furnaces, oxygen converters, continuous casting installations, and rolling mills are in various stages of planning, design, manufacture and installation. Persistent Soviet difficulties in carrying out these tasks and coordinating them with related construction activities has led to a steady increase in the volume of investment funds tied up in uncompleted projects. During the remainder of this decade the USSR is not likely to benefit from any significantly improved performance in reducing this backlog. As a result, the near term outlook is for continued reliance on imports of steel from the industrialized West.